Chapter 7— How is redevelopment financed?

Redevelopment is financed in numerous ways including loans, grants, the issuance of tax allocation bonds, and tax increment financing. Typically, agencies use tax increment funds to leverage financial assistance from various agencies of the state and federal governments, and private sources.

As mentioned in Chapter 1 redevelopment agencies are not designed to make money in the same way the private industry does. They are designed to facilitate the elimination of blighted or deteriorated areas in their communities. The financing process they participate in is one that only pays for the redevelopment activities they accomplish. Once blight is removed from a community, many communities choose to dissolve their redevelopment agencies because they no longer need them.

In order to better explain the redevelopment financing process, answers to frequently asked questions about redevelopment financing are included below. These questions are accompanied by a quick overview of the property tax process and a more detailed description of how tax increment and bonds work.

Any further questions you have about redevelopment financing can be answered by the staff of your local redevelopment agency. Don't hesitate to contact them, especially if you live in a project area and want clarification on how the financing process works.

A review of property taxes

Simply being in a redevelopment area will not increase your property taxes. Property taxes can only be changed as a result of a reassessment value by the county. Reassessment typically occurs upon the sale of a home or upon significant improvements made by the owner. So, if your house is in a redevelopment area and there are improvements made within that area, but not specifically to your house, the property tax you pay will not change. However, your property taxes will increase if your house has been significantly rehabilitated through a redevelopment project, though as an owner you would be fully aware of the potential of a property tax increase before the project even began. There are no surprises in redevelopment.

How are property taxes determined?

Voters approved Proposition 13 in 1978 as the formula for establishing property taxes. Proposition 13 determined that property taxes would be approximately one percent of the market value of the property. In addition, properties may be taxed to repay voter-approved bond debt or special assessments.

What is "assessed value"?

Proposition 13 requires that the assessed value of property be based on its market value at the time the property is sold to a new owner. The county assessors reassess property under the following circumstances:

- The assessor adds up to two percent of the assessed value to the property each year during which a property remains in the same ownership;
- New improvements or rehabilitation of the property trigger a partial reassessment; and
- The sale or transfer of title in the property initiates a reassessment to market value.

For example, if your property has an assessed value of $100,000 today, the taxes you pay on that property may not exceed one percent ($1,000 per year) plus the amount of any voter-approved special taxes. Each year, the property can increase in assessed value by no more than two percent over the previous year. Therefore, the next year, the assessed value cannot exceed $102,000. And taxes at one percent would not exceed $1,020.

Redevelopment has no effect on the assessment or tax levy process because redevelopment agencies do not themselves levy a property tax.

Will the redevelopment agency increase my taxes to pay for this project?

No. The redevelopment agency has no power to set tax rates or levy property taxes. As discussed above, property tax on properties within a redevelopment project area are governed by the same laws as properties outside redevelopment project areas.

Will being in a redevelopment project area increase my property taxes?

No. When redevelopment activities are successful, the property values within and around the redevelopment project area increase over time due to the sale of property, or the rehabilitation and new construction of buildings. Thus, property tax increment revenues are the result of the rise in property values, not an increase in tax rates. The changed image and improved economic base increase the marketability of property in the area. Redevelopment activities enhance the marketability of properties.

Do taxing entities serving the project area lose tax revenue?

No. Taxing entities such as the county, school districts, and special districts that serve the project area, continue to receive all the tax revenues they were receiving the year the redevelopment project was formed (the base year). In addition, taxing entities receive a portion of the incremental increase in property tax revenues from a redevelopment project area.

Over the long term, entities will benefit from the redevelopment project and the tax increment financing process because at the end of the redevelopment project life (typically 40 to 45 years), the taxing agencies receive property tax revenues based on the increased value in the redevelopment project area. The tax increment that was flowing to the redevelopment agency, to repay their debt, then flows to all of the taxing agencies. Ultimately, other taxing agencies reap the revenue benefits of the redeveloped and revitalized project area when the project is completed.

Some people say that school revenues are adversely affected by redevelopment. Is that true?

No. In fact, schools benefit from the extra funds they receive from the agency during the financial life of the project. Schools also will benefit from the area having increased property values. Here's how:

Tax increment financing does not reduce revenue allocated to school districts. Existing state school funding formulas offset any gain or loss in property tax revenue. In this way, the state maintains a school's funding level, no matter what happens to the area's property taxes.

In a redeveloped area, school districts and community college districts receive a portion of the tax increment revenue (called a "pass-through") during the years when the agency is using the tax increment to pay back the debt they accrued from financing the redevelopment project. After the agency pays off their debt, school districts still receive portions of that tax increment revenue.

Tax Increment Financing

What is Tax Increment?

When a redevelopment agency implements a redevelopment plan, the improvements result in an increase in property values within the project area. However, individual property owners will not pay increased taxes unless there is a change in ownership, rehabilitation, or new construction to their property. Increase in value due to change in ownership or new construction increases the tax revenues generated by the property. This increase in tax revenue is known as "tax increment." Please refer to the accompanying graphics below and on page 30 for a visual representation of the way tax increment works.

Figure 1
Projected Assessed Valuation Growth

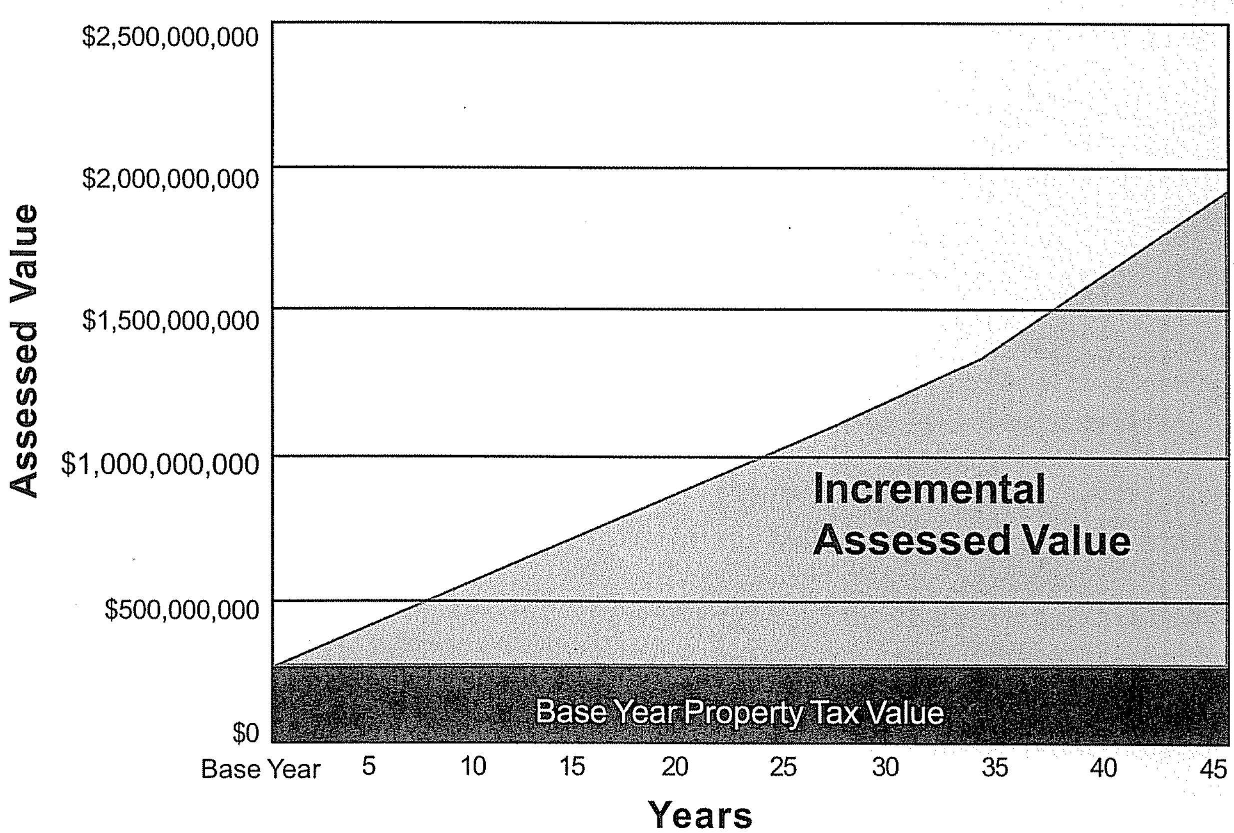
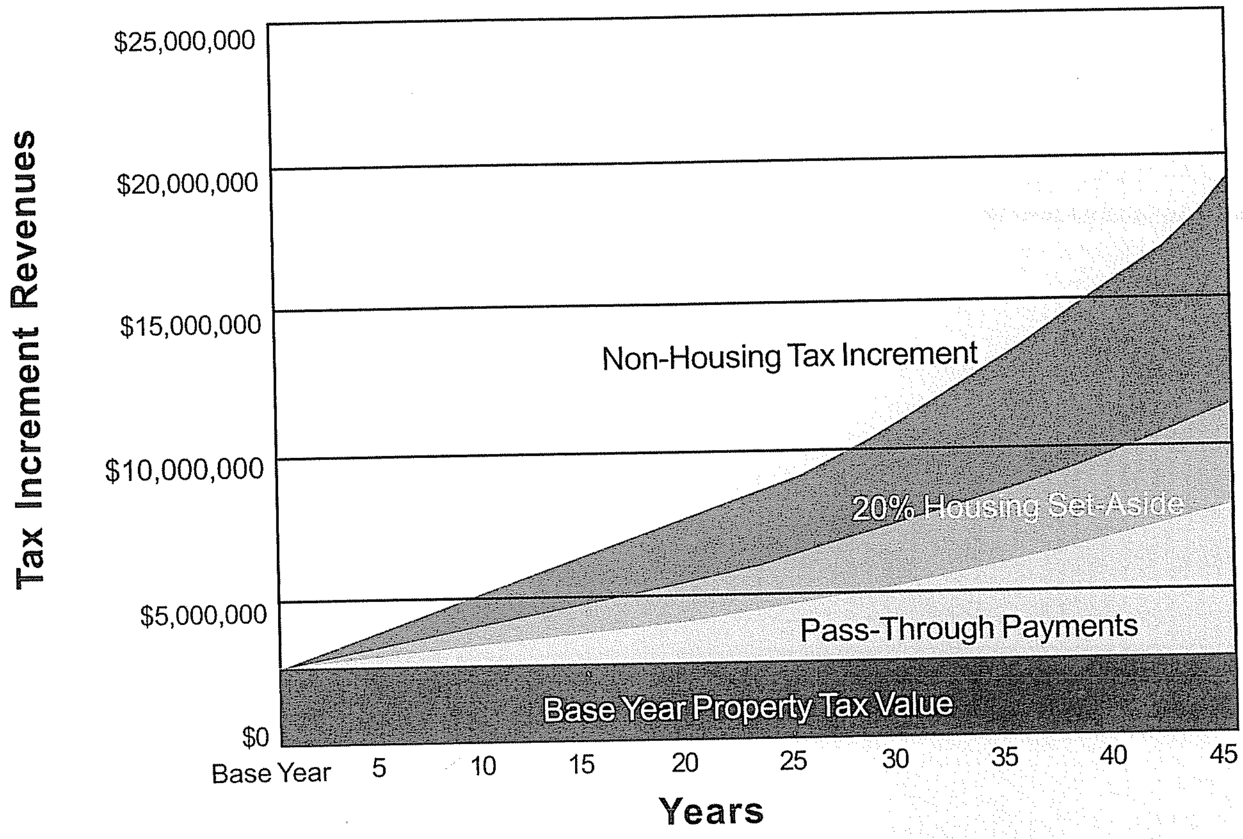


Figure 2
Tax Increment Projections
(Future Value Dollar)



For example, a property owner pays $1,000 (the standard property tax rate of one percent) on land assessed at $100,000 this year, pursuant to Proposition 13. If, as a result of new construction on the property, the property increases in assessed valuation to $500,000, the property owner would pay $5,000 at the same standard tax rate. The $4,000 increase is called "tax increment." Redevelopment agencies are entitled to collect this increase in property tax revenues, or tax increment, on the acreage they redeveloped to repay the debt involved in the project, and to reinvest these dollars in redevelopment activities within the project area. As well, 20 percent of that tax increment money goes into a housing fund set aside specifically to finance low- to moderate-income housing.

How does the redevelopment agency receive financing from tax increment?

Before an agency begins work on a redevelopment project, the county tax assessor designates the current assessed property values for the project as the "base year" property tax value. This value includes the assessed value of all land and improvements within the boundaries of the project area.

After the redevelopment plan is adopted and construction has begun, the city, county, school districts, and other taxing entities will continue to receive the same amount of revenues generated for the project area as they did before the project started from the taxes paid on this original "base year".

Any revenue the redevelopment agency receives derives only from increases in the assessed value above the previously established base year value from properties within the boundaries of the project area.

Does the agency automatically receive the tax increment?

Yes. The state and local taxing entities automatically pay the redevelopment agency. The agency annually collects tax increment revenues in order to repay the agency's existing debt obligations that result from redevelopment. Before a project begins, an agency creates debt by selling bonds, entering into loans or advances by paying the cost of a project, or paying other legal obligations connected to the project. The agency's unpaid debt is called indebtedness and is strictly the agency's obligation.

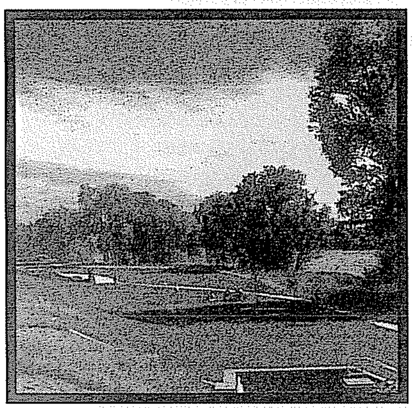
Tax Allocation Bonds and Loans

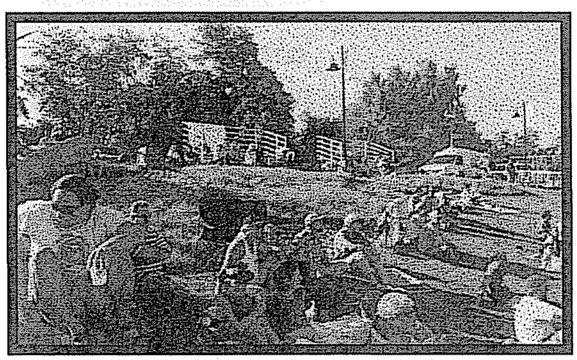
Can a redevelopment agency issue bonds?

Yes. In many cases redevelopment agencies' share of tax increment revenues and other funds may not be sufficient to finance the full realm of redevelopment activities on a pay-as-you-go basis. As a result, the agency may issue tax allocation bonds. The agency uses the bond funds to implement the redevelopment plan. In effect, the bonds are a loan of money to the agency.

How are the tax allocation bonds and loans repaid?

The redevelopment agency, <u>not</u> the city or county, bears sole financial responsibility for tax allocation bonds and loans. The agency repays the bonds or loans from the tax increment revenues. In other words, tax revenues generated by redevelopment activities are funneled back into the project area to stimulate additional development and to pay the costs involved.

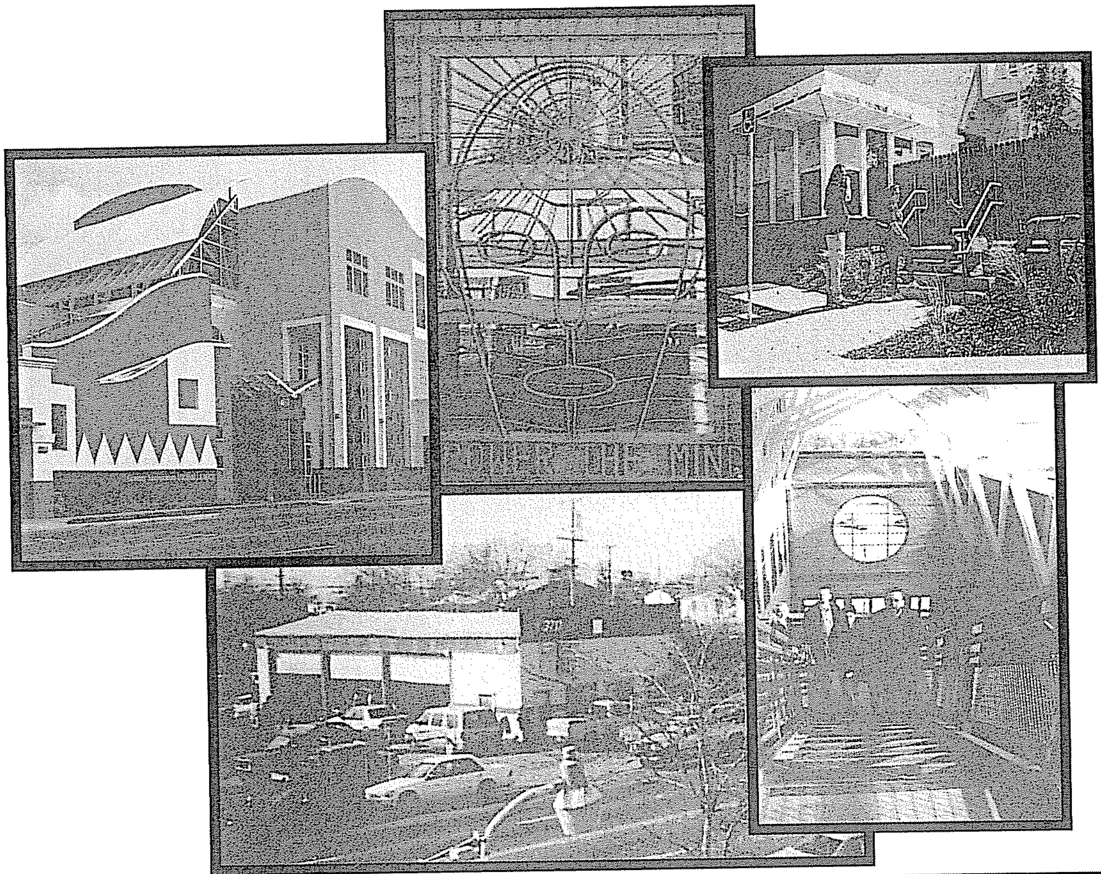




***Riverwalk Park—
West Sacramento Redevelopment Agency***

Previous to the development of Riverwalk Park, the West Sacramento waterfront was severely deteriorated and underutilized. Since the creation of the park, people congregate for music festivals or just enjoy the beautiful surroundings and the relaxing sound of the river (above).

Vic Fazio Workforce Development Center—Sacramento, California



The Del Paso Heights community was integral in the development of the Greater Sacramento Urban League's Vic Fazio Workforce Development Center, which offers job training programs to area residents.

Sacramento Finds a Voice for Change

A pattern of economic disinvestment and the absence of even basic infrastructure to support modern development left Del Paso Heights, Sacramento in dire need of revitalization from the ground up.

The Sacramento Housing and Redevelopment Agency (SHRA) stepped in and began a vigorous community participation process that led to the development of the Greater Sacramento Urban League's (GSUL) Vic Fazio Workforce Development Center—the first Town Center redevelopment project in the area. In every step of its development, the input of the community, led by the redevelopment advisory committee, was solicited by SHRA and integrated into the project.

The Center's construction required the demolition of a largely vacant, burned structure and the replacement of several dilapidated structures near the historically important intersection of Marysville Boulevard and Grand Avenue.

Now, this dynamic building sits in the heart of Town Center and is a catalyst for renewed investment in a commercial corridor that focuses on major streetscape improvements, public art and new commercial development. Its innovative architecture and the mission of the GSUL recognize and celebrate the neighborhood's cultural diversity and community pride.

The GSUL provides job opportunities, workforce development training, childcare for students, and the only bank in the area as part of meeting broader community revitalization goals.